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4520 EAST WEST HIGHWAY
SITE 800
BETHESDA MD 20814

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Today

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If you think these procedures are complex, wait until you start getting broker-dealer examinations.

Owen Carney, a director in the Office of the Comptroller, referring to existing investment portfolio procedures. [Page 1]

Fed Considers Following Lead Of Comptroller on Mutual Funds

By JED HOROWITZ

SAN DIEGO — The staff of the Federal Reserve Board is reviewing two decisions by the Office of the Comptroller of the Currency that strengthened banks' ability to market mutual funds, a Fed official said.

"We are looking at them," Robert S. Plotkin, assistant director of the Fed's division of banking supervision and regulation, told bankers attending a meeting here. "They are in direct opposition to the Fed's interpretation [of the Glass-Steagall Act]."

Last summer, the Comptroller's office told NCBN Corp., Charlotte, N.C., that its brokerage affiliate could offer customers advice on buying mutual funds and other securities that it sells as an agent. In December, the regulator broadened the interpretation by telling First Union National Bank, Charlotte, that it could offer advice on mutual

funds for which the bank acted as investment adviser.

Owen Carney, director of the investment securities division of the Comptroller's office, said at the American Bankers Association's funds management and financial markets conference

NY Regulator Fears New Powers Delay
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that he viewed the new activities "not as investment in the formal sense, but sales advice."

Mr. Plotkin made his comments from the audience after Dwight C. Moody, senior vice president of Florida National Bank and president of its Jacksonville-based brokerage subsidiary, urged bankers to promote mutual

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Moratorium, Mutual Funds to Be Topics At Trust Bankers Annual Conference

By DAVID O. TYSON

NEW YORK — Leaders of the trillion-dollar trust banking industry are gathering in Washington this week to lobby Congress, hear what the regulators have in the works, and congratulate each other on surviving the Oct. 19 crash with minimum damage.

The national trust and financial services conference of the American Bankers Association began Sunday and continues into Wednesday with 900 trust bankers registered in advance.

Discretionary assets managed by their institutions surpassed \$1 trillion for the first time in 1986, according to the federal regulators' tally for that year, which was completed only 10 days ago.

The report, now being printed, shows \$1.065 trillion discretionary trust assets, with \$450.9 billion in common and preferred stock, at the end of 1986. This was up from the \$945.4 billion total, with \$399.3 billion in stock, at the end of 1985.

The stock portion was 42% in both 1985 and 1986. The percentage in stocks may have fallen in 1987 because of the stock market crash. But assets managed by the trust industry probably expanded significantly beyond \$1 trillion, thanks to the conservative balance of investments in most trust accounts.

David E. Ellison, president of Laird, Norton Trust Co., a privately owned institution in Seattle managing about \$500 million, said stock market returns in recent

Moratorium: Page 6

Citicorp Alters Layoff Policies To Trim Costs

Long-Term Employees Lose Some Job Security

By JOHN P. FORDE

NEW YORK — Citicorp, faced with drooping earnings, has changed long-standing personnel policies to reduce job security for some veteran employees—and place a cap on severance payments.

The changes, intended to increase efficiency and bolster earnings, apply to all of Citibank's approximately 23,000 employees, as well as all the holding company personnel. Among the most important changes is the elimination of an exemption for 20-year employees from layoffs in all of Citibank's U.S. businesses. The move is expected to have the most impact on employees in the New York area.

Other changes include eliminating the concept of a "comparable" job for staff members whose positions have been eliminated. Instead, they will be offered a "suitable" position. The memo added that if the new position is in a lower salary or grade, the employee's salary can be gradually lowered if it is above the maximum for the new post.

Severance payments for staff members will be capped at 58 weeks, while officers can receive a maximum payment of 20 months' salary. Officers with less than 10 years of experience may receive a maximum of six months of salary in a lump-sum severance payment. For officers with more than 10 years of experience, the maximum severance payment is nine months' salary.

For employees with more than 20 years' experience, the policies were changed to allow more choices. The bank gives them more time to decide if

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BANKING TRENDS

Service with a Smile Beats a Penny in the Pocket

By DR. PAUL S. NADLER

WHEN ASKED what one piece of advice he would give the American people, Conrad Hilton, the hotel mogul, is reported to have answered: "I would tell the American people, always put the shower curtain inside the tub."

Similarly, if I were given the opportunity to offer one piece of advice to the readers of this column, it would be Nadler's law No. 2: "You can't pay top dollar and give top service, too."

Nadler's law No. 1, "Show me a banker who makes fixed-rate loans and keeps them, and I'll show you a horse's rump," no longer needs attention. Most bankers accept this view.

The few savings and loan and bank executives who still gamble on rates by making these fixed-rate loans are risking the future of their institutions. They are like those Wall Street firms heavily involved in arbitrage — owning quantities of stocks of possible takeover candidates — that risked their vi-

Dr. Nadler is a professor of finance at Rutgers University's Graduate School of Management and is contributing editor of the *American Banker*.

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Editor: William E. Zimmerman

News Editor: Thomas J. Ferris

Associate Editors: Laura Gross,

Sanford Rose, David O. Tyson

NEWS BUREAUS:

Washington: Chief, Robert Trigaux, 911 National Press Building, Washington, DC 20045; (202) 347-5529

Midwest: Chief, Richard Ringer, 53 W. Jackson Blvd., Suite 230, Chicago, Ill 60604; (312) 663-6380

West Coast: Chief, Robert Luke, Suite 320, 510 W. Sixth St., Los Angeles, CA 90014; (213) 627-0953

San Francisco: Michael A. Robinson, 460 Sansome Street, Suite 1420, San Francisco, CA 94111; (415) 986-8705

Southwest: Chief, David LaGesse, Suite 1600, 8080 North Central Expressway, Dallas, TX 75206; (214) 891-8878

New England: Chief, Michael Weinstein, 210 South St., Boston, MA 02111; (617) 542-6848

London: Chief, John J. Duffy, American Banker, c/o Infopac S.A., 31-35 Beak St., London W1R 3LD England; (01) 439-3066

Feature Editions Editor: Patricia Stundza

Chief Statistician: L. Michael Cacace

Senior Editor, Copy Desk: Aileen L. Kyte

Art Director: Pamela Budz

Contributing Editor: Paul S. Nadler

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Information Products: Robert S. November

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Vice Presidents:

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Nadler Says:

Bank relationships are too important to be sacrificed and switched for a few basis points of lower borrowing cost or high return on certificates of deposit.

ability when Black Monday came around.

But Nadler's second law needs reaffirming over and over. It is the key to successful banking today, since service means far more than rate to the American borrower and to most depositors.

Bank relationships are too important to be sacrificed and switched for a few basis points of lower borrowing cost or high return on certificates of deposit.

What we want is good, dependable service. This applies not only to bankers as providers of service, it also applies to them as purchasers.

What customers want is to know they can call one person and only one person on any problem and that problem will be solved.

Visit a cash manager's meeting and see the state-of-the-art systems that are available. After a few minutes they all look alike and do the same things.

Talk privately to the vendors selling the work stations, float control programs, and the like. What each will tell privately (especially if you are a college teacher and don't intend to buy anything anyway) is that it is the personal touch, the willingness to call and call that makes the difference in who gets the order and the reorders. All the hardware, and most of the software, is similar.

Talk to bankers about their midmarket promotion programs for building loan volume. Again, they will tell you in private, "Everybody's money is green. We just visit more and try to understand what they want and provide it rapidly."

What does the public want?

No. 1, according to surveys commissioned by bankers of the industry in general and of their own banks, big corporate customers and individuals again and again say they want a bank that corrects errors.

Everyone makes mistakes. What customers want is to know they can call one person and only one person on any problem and that problem will be solved. This is what makes private banking so successful, and it has reached a point where banks like the Huntington National Bank, Cleveland, have assigned every single customer a private banker.

But it need not go that far. Liberty National Bank and Trust Company, Oklahoma City, has used a program of listing its phone numbers so specifically that customers whose names begin with the letters G through N, for exam-

ple, know the specific number to call if they have an inquiry or problem.

What bank customers want is similar to the kind of service I received two decades ago. I had lightly bumped into another car. The other driver and I exchanged names and drove off, since there appeared to be no damage. The next week, when I received a lawyer's letter stating the other driver had experienced "whiplash," I called my insurance company. They said to send them the letter and they would handle it.

It is now 20 years later. I don't have the foggiest notion what happened, and I don't care. All I know is they said they would handle it, and they did. That's the kind of "one stop" or "one call" service we want from our banks, too.

Another service desire is speed. A quick no is appreciated far more than a slow yes. The potential borrower still has time to go elsewhere before the opportunity is lost.

Letting people know they are important is another area in which service is a key.

Jefferson National Bank, Miami Beach, will send the president's car to take a little old lady to the bank to do a transaction. Do you think she cares whether their certificate of deposit rate is as high as the next bank's as she steps out of the car and is told the driver will happily wait as long as it takes?

What it boils down to is, you can give rate or you can give service. You don't have to give both. And what more and more banks are finding out is that the public in many ways prefers getting good service over getting top dollar.

This comes as a slight irony to this writer: When deregulation first took place and rate competition soared, Nadler's law was intended to show that while you had to pay top rate, you didn't have to give all the service with it.

Now it appears to have turned around. Circumstances seem to indicate that the public wants the service but doesn't expect the rate to be the last dollar if the service is top quality.

With service so important, though, what else can we say about its delivery that could be useful?

A regional bank executive at an Illinois Banking Association conference gave some pointers on how to keep up service levels after taking over a smaller institution to avoid losing customers:

A quick no is appreciated far more than a slow yes.

- Notify customers of the change as close to the actual conclusion of the transaction as possible.

- Ask customers for their ideas on service deficiencies and listen to them.

- Communicate with the customers frequently.

- Stress quality in everything you do.

- Make sure bureaucracy does not slow transaction speed.

- Don't make promises you can't keep.

- Be honest.

- Don't destroy the identity of the acquired institution.

- Don't move people around more than you have to.

- Be clear on direction — don't give conflicting signals to the customers and the employees.

- Pray.

And — from the viewpoint of shareholders, I would add one final item — remember my law No. 2. You can give rate or service, but don't try to burn the candle at both ends.

MEMORY BANK

The following quiz is based on material that appeared in last week's issues of the *American Banker*. Answers are on page 8.

1. How many midwestern agricultural states were among the 10 states with the highest percentage of non-performing loans in the first nine months of 1987?

2. "I can't think of another situation where the industry leader walked away. What can one say beyond that?" Securities Industry Association chairman John W. Bachmann was testifying before the House Banking subcommittee on financial institutions. To what incident was he referring?



Securities

3. A Senate subcommittee statement last year said that the so-called Nigerian Crime Network had "become especially adept at credit card fraud, bank fraud, insurance fraud, and entitlement fraud." How did a New York commercial bank use its computers to shrink losses caused by this nationwide network's schemes from about \$550,000 a year to less than \$20,000 a year?

4. "What we are doing, in theory, will reach into every corner of the bank," said Paul G. Bassett of Netron Inc. Name the foreign bank and the nature of the overhaul, budgeted at the equivalent of \$85.4 million.

5. In the first of what the Federal Deposit Insurance Corp. hopes will be many bulk loan sales, 2,500 loans from 21 failed banks were sold to Diversified Financial Planners Inc., Fort Wayne, Ind. The defunct banks were located in what state?

6. Last year, David A. Coulter resigned as chief asset sales official at this California bank holding company. He went to the financial institutions group of E.F. Hutton Group in New York, serving as a first vice president. Now he has returned to the California company as senior vice president in its treasury and finance area. Name the West Coast concern.

7. Clouded hopes? "Our decision was to decline the invitation to talk about duality with Plus," said Bruce Burchfield, president of Cirrus System Inc. He was speaking of Cirrus' decision to reject a proposal by its rival, Plus System Inc., that the two automated teller machine networks offer reciprocal access to each other's customers. What was Mr. Burchfield alluding to when he used the term "duality"?



8. As part of a U.S. government plan, a Denver-based card processing company is issuing MasterCard cards to employees of several federal agencies to be used for small purchases. Name the Colorado company, which has already provided 15,200 of the cards to federal employees.

9. The 1987 pretax loss of \$884 million is the largest ever for one of Great Britain's big four clearing banks. Name the bank that suffered the deficit after making provisions of \$1.8 billion to its reserves for Third World loans.

— Howery Pack

Moratorium, Mutual Funds to Be Topics at Trust Bankers Meeting

→ Continued from Page 1

years were more than should reasonably be expected. Accordingly, his portfolio managers had reallocated assets into bonds, cash equivalents, and real estate.

"When stocks went down, bonds did well," he said in a phone interview. "We had positive returns in most accounts. I don't know an upset customer I've got."

The absence of margin buying in trusts staved off much of the damage from the crash. "I was in a lawyer's office the other day, and he was telling me about a lady in a brokerage account," Mr. Ellison said. "She had \$250,000, and she lost the whole thing. You don't find that in a trust department."

Even equity portfolios at many banks posted gains for the full year. The 321 common stock bank collective funds tracked by CDA Investment Technologies Inc., an *American Banker* affiliate, had an average total return of 4.3% for the year, despite a negative 21.2% total return in the fourth quarter.

In addition to the trust accounts at banks, investment advisers affiliated with banks managed \$138.7 billion assets in 1985 and \$159.9 billion in 1986, according to the regulators' survey. This group consists primarily of trust department investment managers who have been spun off into stand-alone companies in recent years.

A Band of Lobbyists

Many trust bankers attending the Washington conference are forming a band of amateur lobbyists. They will charge up Capitol Hill on Tuesday afternoon to urge their representatives and senators to enact the ABA legislative program.

They invade the halls of Congress at an opportune time: The Senate Finance Committee is expected soon to mark up the Proxmire-Garn bill, which would repeal key provisions of the Glass-Steagall Act. Indeed, a group of trust bankers from Wisconsin will meet with Sen. William Proxmire, D-Wis., chairman of that committee.

The most immediate item on the ABA agenda is what is known simply as the moratorium. Last August, Congress imposed a moratorium on regulators granting new powers to banks while financial reform legislation was considered.

The moratorium expires March 1. Congress is not likely to act in the meantime to extend it, but the trust bankers are not taking chances. They do not want it reimposed later, either.

Beyond that, the ABA seeks bank powers to underwrite mortgage and asset-backed securities, municipal revenue bonds, commercial paper, and corporate securities. As in past years, it also is pushing for a change of special interest to trust bankers — mutual fund powers for banks.

Courts and regulators have interpreted the Glass-Steagall Act as permitting banks either to act as investment advisers to investment companies or to distribute the fund shares, but not both. Trust bankers want the right to form their own mutual funds and sell them to their banks' customers and others, just as investment management firms and insurance companies do.

The moratorium notwithstanding, the Office of the Comptroller of the Currency issued a letter on Dec. 9 saying a national bank — First Union National Bank of North Carolina, Charlotte, in this case — can act as investment adviser to a mutual fund, recommend the fund to customers, and be its customers' broker for the fund.

The Comptroller's opinion falls short of saying banks can distribute funds. But it is one more milestone on the

Trust Banking's Share of Pension Market

At market value (billions of dollars)

Trust employee benefit discretionary assets	1981	1982	1983	1984	1985	1986	1987
Trusteed	175.2	209.5	218.0	230.9	249.9	299.1	N.A.
Agencies	53.7	81.5	117.3	116.8	144.8	151.6	N.A.
Total	229.0	291.0	335.2	347.7	394.7	450.7	N.A.
Pension fund assets							
Private	418.4	466.2	520.9	557.3	606.3	635.0	1,653.7a
Public	224.2	262.5	311.2	356.6	404.7	469.5	
Insured	199.8	242.9	286.4	331.6	400.0	476.9	N.A.
Total	842.4	971.6	1,118.5	1,245.5	1,411.0	1,581.4	N.A.
Ratio, trusts to total	27.2%	30.0%	30.0%	27.9%	28.0%	28.5%	N.A.
S&P 500 rate of total return	-5.0%	+21.6%	+22.5%	+6.2%	+31.7%	+18.6%	+5.2%

Source: Federal Financial Institutions Examination Council annual survey, *Trust Assets of Financial Institutions*, for trust employee benefit assets. Federal Reserve Board flow-of-funds accounts for pension assets. CDA Investment Technologies Inc. for Standard & Poor's 500 common stock index rate of total return (with dividends reinvested).

(a) Salomon Brothers Inc. estimate of 1987 private and public funds.

Trust Stake in Pension Market Firm

NEW YORK — In the face of competition from investment counseling firms, mutual fund managers, and life insurance companies, the trust banking industry appears to have held its share of the pension fund market in the 1980s.

According to an *American Banker* tally, the market share fluctuated between 27% and 30% from 1981 to 1986, the latest year of available statistics.

At the end of 1986, trust departments had discretionary investment authority over \$450.7 billion in employee benefit fund assets in both trust and agency accounts.

That figure comes from the annual survey of the trust assets of financial institutions conducted by federal regulatory agencies. They include the Federal Reserve Board, the Federal Deposit Insurance Corp., the Office of the Comptroller of the Currency, and, since 1985, the Federal Home Loan Bank Board.

The \$450.7 billion is 28.5% of the more than \$1.581 trillion of pension fund assets at the end of 1986, as extracted from the flow-of-funds accounts of the Federal Reserve Board. The three components are private pension funds, state and local government employee retirement funds, and the insured pension reserves of life insurance companies.

Coverage of the two statistical series differs, so market share ratios should be treated with caution.

For example, a number of banks in recent years have spun off their trust investment divisions into separate subsidiaries of the bank or holding company. The regulators' survey started covering such affiliates separately in 1985. But their assets are not included in the trust banking totals.

The trust totals do include individual retirement account and Keogh plans set up as trusts. IRAs and Keoghs are not reflected in the flow-of-funds totals.

— David O. Tyson

road to greater powers that the trust industry started on two decades ago.

"Rory O'Neil and I were the first co-chairmen of the first ABA trust committee to start work on additional powers in that area in the mid-1960s," said W. Kenneth Bonds in a phone interview.

Mr. Bonds is vice chairman of Liberty National Bank & Trust Co. of Oklahoma City and was president of the ABA trust division in 1979. C. Roderick O'Neil, now a consultant, was head of the trust department of Manufacturers Hanover Trust Co. and later chairman of the investment committee of Travelers Corp.

"I believe all the forces that cause something like that to happen are finally coming together," Mr. Bonds said.

"I even think the opposition is intelligent enough to realize it's going to happen, and instead of fighting it they are finding ways to protect their nests as well as they can."

The opposition, not unexpectedly, is the mutual fund industry. And while bank efforts to gain added powers have stalled, mutual fund managers have preempted much of the bank market.

Bank trust accounts at the end of 1986, for example, had \$35.2 billion invested in money market mutual funds. And the big managers of stock and bond funds, such as Fidelity, Federated, and Dreyfus, have struck deals with banks to market those mutual funds to bank customers.

"The very people who are trying to prevent banks from getting this authority are tripping over one another to get

banks to sell their funds," said James D. McLaughlin, ABA senior government relations counsel.

"You will see them exhibiting at the trust conference, both to sweep cash into trust accounts and to make their funds available to bank customers."

The Tax Reform Problem

Trust bankers also will be talking to members of Congress about the 1986 and 1987 tax reform legislation.

Like individual taxpayers, administrators file returns for personal trusts and estates and pay tax. Changes in legislation make the task onerous. Tax staffs in trust departments must be reorganized and computer systems reprogrammed. Then, the Internal Revenue Service suddenly rewrites the regulations.

The IRS did that Feb. 2. It announced a change in how returns are filed for trust accounts that had fiscal years ending on dates other than Dec. 31.

At one time, all trusts ended on Dec. 31. But the returns bunched up, overwhelming trust departments and the IRS.

The IRS supported a provision in the 1954 tax act that let administrators define the fiscal year for each trust. But the agency came to perceive odd fiscal year ends as an opportunity to avoid paying some taxes.

Changing to calendar years in 1987 created a short interim year for many trust accounts that required a separate return. Many trust departments al-

ready had filed the returns for the short period when the IRS said the returns had to be annualized.

For example, a trust that had a fiscal year ended on Aug. 31 required a return for that 12-month period and for the four months ended Dec. 31. To annualize the four-month return, the trust multiplies trust income by three, calculates a tax for that prorated 12-months, and then divides the figure by three.

Another piece of tax legislation the ABA seeks is part of a technical corrections bill moving through Congress.

The 1986 tax act requires personal trusts for the first time to make quarterly tax installment payments, as do individual taxpayers. Each installment is based on income for the preceding three months. The April 15 payment, for example, is based on income for January, February, and March.

"That gives you 15 days to figure the payments and compute the tax," said Mr. McLaughlin. "If you are a big bank, you have to do that for several thousand accounts. Then you have to cut the checks and get them out."

Under a compromise the ABA worked out with the Treasury, the April 15 tax payment would be based only on January and February, not March. Instead of multiplying income for three months by four to estimate annual income, the bank would multiply income for two months by six.

"It gives us what we need but doesn't impair the government revenue," Mr. McLaughlin said.

Common Trust Funds

Aside from legislation, the ABA wants to ease some of the regulatory restrictions on common trust funds. These funds are the collective investment funds for personal trusts and estates, like mutual funds within a trust department. The Comptroller regulates such funds in both national and state banks.

ABA efforts are directed at the Comptroller's Regulation 9, which governs fiduciary activities.

One change sought is an easing in 10% limits. Under one limit, a common trust fund may not invest more than 10% of its assets in any one securities issuer. Under another, no trust account may hold more than 10% of a common trust fund.

The ABA also wants to permit banks to charge fees for managing specialized common trust funds, such as those in real estate and foreign securities, since they have higher operating costs. Banks now are compensated only by the trust fees charged to clients.

In another proposed change, the ABA wants to eliminate a requirement that a bank's board of directors must approve any amendment to a common trust fund. "That ought to be delegated to the trust department," Mr. McLaughlin said.

Comptroller Robert L. Clarke was scheduled to deliver the luncheon address at the Washington conference today. There is an outside chance that he will announce that the Regulation 9 changes have been sent to the Treasury Department and the Office of Management and Budget for approval.

Whether he does or not, the proposals are sure to come up when representatives from the federal agencies participate in rap sessions during the conference. Leading them off this afternoon is a familiar figure for some years at national trust conferences — Dean E. Miller, deputy comptroller of the currency for compliance.

Mr. Miller said he favors easing the 10% limits and the ban on management fees for common trust funds. And he is optimistic that the Office of the Comptroller will approve the revisions. ■

NEWS MONDAY

AMERICAN BANKER WEEKLY REVIEW

FEBRUARY 22, 1988

Proxmire Bill Still Changing

Curbs on Securities Firms Eased in New Proposal

By ROBERT M. GARSSON

WITH the Senate Banking Committee moving ever closer to a vote on major banking legislation, aides to Sen. William Proxmire last week are scrambling to salvage the Wisconsin Democrat's effort to repeal the Glass-Steagall Act.

Late in the week, staff director Kenneth A. McLean, according to several sources, was claiming that he had lined up a majority behind a compromise bill. The essence of the compromise was said to be a relaxation of restrictions that would have prevented most major securities firms from purchasing a bank and a phase-in of the Glass-Steagall repeal.

However, a number of sources said that Sen. Christopher Dodd, D-Conn., and Sen. Alan Cranston, D-Calif., two key players in this legislative battle, are unwilling to accept Sen. Proxmire's compromise.

Senate Banking Committee staff earlier in the week began circulating a new draft of the banking bill that was intended to serve as the basis for committee deliberations when it meets to vote on legislation. The crux of the draft was language repealing key sections of Glass-Steagall.

But the proposal apparently did not relax restrictions that would prevent most large securities firms from purchasing a bank. It had been widely rumored that such a change would be in the print to satisfy critics who argue that the Proxmire bill is a one-way street that gives banks access to securities powers but bars the securities industry from banking.

Because the earlier draft does not revise the Bank Holding Company Act, securities firms involved in insurance or commerce would not be able to own a bank. As a practical matter, all but one or two of the 30 top securities firms would thus be barred from banking. The print apparently

Proxmire: Page 14 ➡

Union Goes from British to Japanese

WHEN the agreement to sell Union Bank to California First Bank is completed, it will simultaneously boost the presence of Japanese banks in California and complete the withdrawal of British banks from the state.

Standard Chartered PLC, the London-based bank, last Tuesday signed a letter of intent to sell its Union Bank subsidiary to California First Bank for \$750 million. California First, San Francisco, is 77% owned by the Bank of Tokyo Ltd. and is the sixth largest bank in California. Union Bank, Los Angeles, is the state's fifth largest.

The sale, which has been expected for some time, finishes the British exodus from the Golden State. Earlier this year, Barclays Bank PLC agreed to sell its California retail banking subsidiary to Wells Fargo Bank. In 1986, Wells completed its \$1 billion acquisition of Crocker National Corp. from Midland Bank PLC. And in 1985, Lloyds Bank PLC sold its California operations to the Sanwa Bank Ltd.

For nearly two years, senior executives at California First Bank have been shopping for an acquisition that would add muscle to the state's largest Japanese-owned bank. The proposed purchase of Union Bank will bolster California First's position as a middle-market business lender.

The deal also is part of a larger strategy by Bank of Tokyo to take advantage of



Charles Waller

growing trade along the Pacific Rim, according to Seishichi Itoh, president and chief executive officer of California First. "California will be a very important location for Japanese companies," Mr. Itoh said.

For Standard Chartered, the sale is part of a major effort to rebuild its severely battered capital position. In August, the bank announced a \$395 million loss for the first half of 1987 after boosting reserves by

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Comptroller Says Disclosure Rule Will Promote Confidence

By ROBERT TRIGAUX

THE regulator of the nation's federally chartered banks says that those institutions must start providing regularly updated and detailed information of their financial condition to anyone who requests it.

The new rule, issued by the Office of the Comptroller of the Currency, requires national banks to provide an annual disclosure statement to customers, shareholders, "and other interested persons" no later than March 31 every year. The first disclosure information will cover financial data from 1987.

The rule is identical to one issued late last year by the Federal Deposit Insurance Corp. affecting federally insured state, non-member banks. The Federal Reserve Board is not expected to require similar disclosure by its state member banks.

The Comptroller's rule is the product of a belabored rule-making process that began in July 1984, when then Comptroller of the Currency C. Todd Conover proposed stringent rules requiring national banks to supply more information, including enforcement actions taken by the agency against a bank.

Since then, three different disclosure proposals have been put forward, 898 comment letters have been received from the industry, two public hearings have been held with 25 witnesses, and the final agency proposal has made its way through lengthy internal reviews of the Treasury Department and the Office of Management and Budget. Now, more than 1,300 days later, provisions have been relaxed in the final rule. The proposed disclosure of enforcement actions has been dropped.

This rule calls for national banks to disclose the same data they

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Layoffs Cutting a Swath Through Nonbank Firms

BANKS and brokerage houses are not the only segments of the financial services industry that using cutbacks in efforts to reduce the costs of doing business. Last week, both a big mortgage banker and a major mutual fund group announced new rounds of staff layoffs.

Citing continued declines in mortgage originations nationwide, Lomas & Nettleton Financial Corp. said it plans to reduce its mortgage banking staff by an additional 20%, laying off about 540 people. The Dallas-based financial services concern said the cutbacks, along with additional restructurings in the mortgage unit and an increase in reserves against foreclosures, will produce a \$93 million charge to net income for the quarter that ends March 31.

The cutbacks, expected to take place

in the next few weeks, follow a similar staff reduction in October. They will leave a mortgage banking staff of 2,150 employees, down from a 1987 peak of 3,600, the company said.

Retrenchments have swept the mortgage industry since last April, when rising interest rates began to cool consumer demand. But industry observers said that Lomas' staff reduction, 40% since October, is unusually large.

"Cutbacks of 20% to 25% have been more norm," said Robert Keating, director of the mortgage banking group at Salomon Brothers Inc. He added, however, that many companies may make additional cuts if the current flurry of mortgage lending, caused by a sudden drop in interest rates, proves short-lived.

Jess Hay, chairman and chief executive of Lomas & Nettleton, said in an

interview that the firm's mortgage unit is not suffering from unique problems. Instead, he said, the scale of the cutbacks reflects the industry-wide drop in originations from last year's levels and Lomas' projection of "gently declining demand" over the next 20 years.

"We accept as a reality the probability that fewer families will be formed in the next 20 years than in the past 20 years," reducing the demand for housing, he said.

The Mortgage Bankers Association of America projects that total residential mortgage originations will drop to about \$330 billion this year from an estimated \$425 billion in 1987.

Mr. Hay said virtually all of the staff reductions at Lomas will be layoffs and that they mainly affect production personnel.

Lomas & Nettleton plans to cut its

branch network from 60 offices nationwide to about 30 branches. These branches will serve larger geographic areas than the current offices, Mr. Hay explained. The company said it also will discontinue its depressed home building operations in Texas. In addition, the company plans to consolidate loan processing in Dallas.

Earlier, the Boston-based Fidelity Group of Mutual Funds laid off 326 workers, most of whom were temporary employees, because of a downturn in the mutual fund business, company officials said.

The bulk of employees laid off — 300 from offices in Boston, Dallas, and Salt Lake City — were temporary telephone sales employees hired to handle the expected increase in individual retirement account sales during the first four months of the year. The other 26 employees worked in the firm's discount brokerage unit in New York.

— Donald Shultz

Union Bank Moves from British to Japanese

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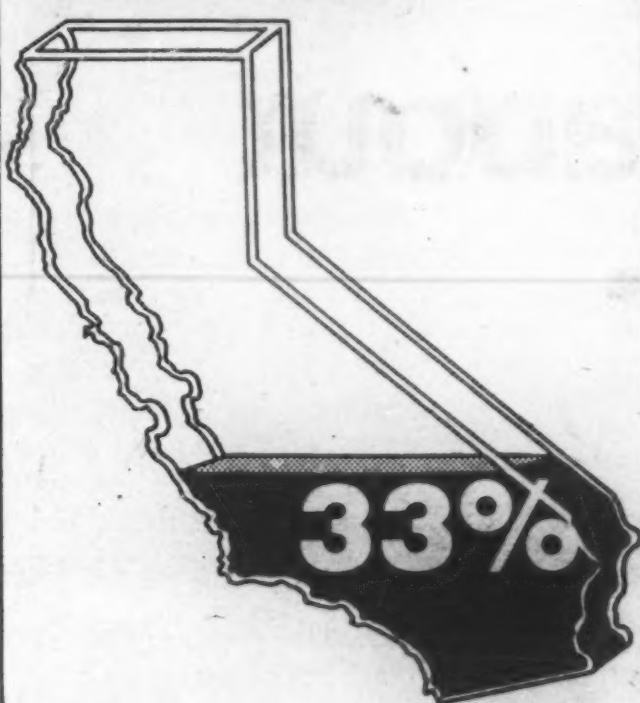
\$700 million for its troubled Third World debts. The bank then announced its intention to dispose of more than \$500 million in assets to increase its reserves even more.

In January, Standard Chartered announced its first major asset disposal, agreeing to sell its United Bank of Arizona to Citicorp for roughly \$210 million. The British bank said the sale of both banks and several minor subsidiaries should bring it about \$1 billion.

"The sale of Union Bank is in keeping with Standard Chartered's declared intention of strengthening the group's capital position through the sale of selected assets," the bank said in a statement last Tuesday. It said the proceeds of the sale plus the reduction in assets on its balance sheet should result in a "significant improvement" in its capital ratios.

Banking analysts said, however, that even though Standard Chartered has raised twice the amount that it sought, its capital ratios still will be considerably below the capital positions of the other major British banks.

Japanese Holdings in State-Chartered California Banks



Standard Chartered's equity-to-assets ratio following bond sales will be only 3.7%. That compares with 4.6% for Barclays Bank, 4.4% for Lloyds Bank, 5.7% for Midland Bank PLC, and 5.6% for National Westminster Bank PLC — the big four British banks.

ANALYSTS said Standard Chartered now faces a dilemma because further asset sales must come from its integrated international network as it lacks other "stand-alone" operations such as Union Bank and United Bank. Standard Chartered's two founding banks, the

Japanese-Owned Banks in California

Dec. 31, 1987 — in Millions

	Assets	Deposits
California First Bank	\$6,051.6	\$5,372.1
Dai-ichi Kangyo Bank of California	266.1	231.6
Kyowa Bank of California	91.6	71.1
Mitsubishi Bank of California	1,546.6	1,399.2
Mitsui Manufacturers Bank	1,584.8	1,431.8
Sanwa Bank California	5,324.6	4,202.9
Sumitomo Bank of California	3,573.9	3,311.8
Tokai Bank of California	1,792.3	722.0
Bank of California ¹	4,704.8	3,213.3
All State-Chartered Banks ²	90,044	75,038

¹The Bank of California is a national bank.
²At Sept. 30, 1987

Source: State Banking Department, The Bank of California

Chartered Bank and the Standard Bank, were set up in the 19th century to serve British trading interests in Asia, Africa, and the Middle East. It now has offices in more than 60 countries.

Its U.S. investments, beginning with the 1979 acquisition of Union Bank, were part of a 10-point program to develop substantial assets in industrial countries to balance the large amount of assets in developing African and Asian countries.

Analysts said its U.S. investments were relatively successful, although its attempts to sell both Union and United were hindered by the stock market crash.

The \$750 million price for Union represented a \$373 million premium over what Standard Chartered paid for the bank in 1979. Its sale of United for roughly \$210 million, however, is \$125 million less than it spent to acquire the bank only a year earlier.

Union Bank earned \$56.3 million in 1987, roughly unchanged from a year earlier. Standard Chartered said that the \$750 million price tag for the bank represents 13.3 times Union's net income after taxes for 1986 and 1987.

Union Bank focuses on lending to mid-size companies and financing construction projects. The proposed acquisition is part of the California First's goal of 200 branches by 1990. Assuming shareholders and regulators approve the purchase, California First would have 167 branches in the state and \$15 billion in assets, an estimated 150% increase from yearend 1987 assets of about \$6 billion.

More important, Union Bank adds a substantial presence in the populous and economically strong region of Southern California. It also catapults California First into middle-market and real estate lending, two areas where the company has attempted to expand but has met with lackluster results. California First has traditionally focused on retail and international banking.

"We have tried hard to get middle-market customers and to get into real estate lending," Mr. Itoh, California First's chief executive, said in a telephone interview. "We have been successful to a certain degree, but not as much as we would have liked. We are a balanced bank. This is a good combination."

California First Bank is 77% owned by the Bank of Tokyo, Japan's 15th largest bank and one that specializes in international lending. The remainder of California First's stock is publicly traded in the over-the-counter market.

The sixth largest bank in the state, California First operates 135 branches in California and has 3,900 employees. Last year, the company earned \$40 million, a 29% increase from 1986 earnings of \$31 million.

Mr. Itoh said his company intends to raise two-thirds of the \$750 million for Union by issuing common stock in the U.S. and the remainder through capital notes.

"We consider ourselves an American company," he said. "We would like to increase the number of local shareholders. But if we cannot sell all of the stock here, we will sell the rest to the Bank of Tokyo."

Union, the fifth largest bank in California with assets of \$9.1 billion, has 32 branches and 4,400 employees. It was acquired by London-based Standard Chartered PLC in 1979 for \$376.5 million. Standard Chartered has been attempting to sell the subsidiary for several months.

Like many other banks, Union recently suffered from domestic credit quality problems. But it has remained profitable. For example, net credit losses totaled \$82 million in 1987, compared with \$33 million a year earlier. Nonperforming assets rose to 4.3% of total loans and leases, against 3.2% in 1986.

Despite a doubling of its loan-loss provision in 1987, the bank's profits in 1987 were virtually unchanged from about \$56 million a year earlier.

Although the Union acquisition would leave California First 33 branches short of its strategic goal for 1990, Mr. Itoh said he has no plans at present to find another merger. Instead, he said, California First officials will concentrate on consolidating the two companies and on internal growth.

New Rule Requires Wider Disclosure

Continued from Page 11

already provide bank regulators in their call reports, formally known as reports of condition.

Call report information is already available to the public upon written request to the FDIC. The Comptroller's ruling simply makes the information more readily accessible.

A national bank has the option in disclosing its financial condition to provide a written discussion of the financial data by bank management. A spokesman for the Comptroller said that the agency is encouraging banks to include this narrative section to help customers better understand the financial information provided.

National banks must post notice in their lobbies that information on the bank is available, and must provide the material

National banks must post notice in their lobbies that information on the bank is available.

free of charge and in a timely manner, according to the ruling. A disclaimer that the Comptroller has not verified the presented information must be included.

Extra disclosure, said the Comptroller, should "promote greater public confidence in national banks and the national banking system" and improve financial investment decisions by the public.

Consumer lobbyist Michelle Meier, counsel for government affairs for Consumers Union, said that she had not examined the final disclosure rules but that she was "glad the agencies were doing something." Consumers Union had in earlier comments on the disclosure rule called for the Comptroller to require banks to pro-



vide information on insider and affiliate transactions, as well as on noncompliance of consumer protection laws.

Disclosure of this type of information is not required by the banking agencies.

Ms. Meier said her organization had sued the Comptroller about a year and a half ago to try to force the agency to provide access to consumer complaint information. Recently, a request was filed for oral arguments in the case in the federal district court here.

Proxmire Offers Compromise Bill

Continued from Page 11

addressed technical issues and left policy decisions for another day.

The proposed legislation seemed to be in the throes of constant revision last week, and there is little doubt that the situation will continue to be very fluid.

"The Proxmire bill is a theoretical two-way street, but not a practical one," said one Senate staffer. "Our job is to make this a more legitimate two-way street." A vote on the measure is now not expected until sometime next month.

Elsewhere on the new powers front last week, the National Association of Realtors reversed a long-standing position and said banks should be permitted to exercise a broad range of real estate powers through separately capitalized affiliates.

The Realtors' new position could eliminate one of the most difficult obstacles to new bank powers, provided the trade group does not demand safeguards that would make it impossible for banks to operate the new units profitably.

"Historically, we've taken on three industries at once," said Edward L. Yingling, chief lobbyist for the American

Bankers Association, referring to the securities, real estate, and insurance lobbies. "Now the securities industry is fragmented and the real estate industry has shifted its position."

The National Association of Realtors, the major trade group for the nation's real estate brokerage industry, represents over 800,000 Realtors nationwide.

Mr. Yingling said he was encouraged by the Realtors' policy, but added that the ABA has not had time yet to evaluate the restrictions on new affiliates that the Realtors will seek in return for their support. As a result, he said, the bank group is not ready to say whether it can endorse the Realtors' policy.

In testimony Wednesday before a Republican congressional task force, a lobbyist for the National Association of Realtors said the trade group's new position was adopted at a meeting in San Antonio last week.

Gil Thurm, vice president and legislative counsel for the Realtors, said the trade group plans to translate its new policy into legislative language in the next few weeks.

FDIC to Revise Rules for Hearings

THE Federal Deposit Insurance Corp. has agreed to publish for public comment a thorough revision of its rules for administrative hearings on possible violations by banks and bankers.

Comptroller of the Currency Robert L. Clarke said his agency is reviewing its own procedures and could issue a similar proposal "sometime in the fairly near future."

The aim of the proposal is to streamline the agency's rules for holding hearings and taking administrative actions such as removing an officer from a bank.

Among the key changes being considered is one to mandate that most hearings take place within 90 to 120 days after allegations of wrongdoing are made by the agency.

Under current rules, hearings are held within 30 to 60 days. But that timetable often is not met, John Thomas, senior attorney with the FDIC, told the agency's board.

The proposed rules were expected to run more than 100 pages. They will be out for comment for 60 days after publication in the *Federal Register*.

Other aspects of the proposal, according to agency staff, would authorize sanctions if a bank or banker failed to follow an administrative law judge's rulings. Other provisions would answer procedural questions about matters such as briefs and witnesses in connection with hearings.